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FM AMEMBASSY MONROVIA
TO RUEHC/SECSTATE WASHDC 1044
RUEATRA/DEPT OF TREASURY WASHDC
RUCPDO/DEPT OF COMMERCE WASHDC
INFO RUEHZK/ECOWAS COLLECTIVE

UNCLAS SECTION 01 OF 03 MONROVIA 000375

SIPDIS
SENSITIVE

E.O.12958: N/A
TAGS: [EFIN](#) [EINV](#) [ECON](#) [EAID](#) [PGOV](#) [LI](#)
SUBJECT: LIBERIA: DRAFT BUDGET IS BIGGER AND MORE DETAILED

REF A) MONROVIA 271 (outlook) B) MONROVIA 262 (CU/BR) C) MONROVIA
119 (Tax cuts); D) 08 MONROVIA 629

Introduction and Summary -----

¶1. (U) The GOL submitted its 2009-10 draft budget for legislative consideration on May 19. Despite the global financial crunch, the budget, at \$347 million, shows a 16% increase over last year's and over 400% growth from the \$80 million budget when the Sirleaf administration took office. It includes a proposal to raise the minimum civil service salary from \$70 to \$80 per month, and provides for teachers, health workers and security officers to earn \$100 per month, instead of the minimum wage they had previously earned. An aid annex is included for the first time, making it clear that foreign assistance still dwarfs GOL revenues. Of the expected \$450 million in FY2009-10 foreign assistance, about \$230 million will come from the United States.

¶2. (U) President Sirleaf noted in her transmission memo to the Legislature that the 2009-2010 budget continues the focus on reconstruction and development and protects spending in social services, the justice sector and security. She called for rapid passage of essential legislation such as the Public Financial Management Act, the Civil Service Reform Act, and revisions to the Revenue Code and the Public Procurement Act. Liberians consistently identify roads as their top priority, and the budget reflects this, with the largest single line item (\$39.9 million) for public works. (Note: Liberia's fiscal year starts July 1. All amounts are in U.S. dollars. End note) End Introduction and Summary

¶3. (U) This marks the first year of Poverty Reduction Strategy implementation, the mid-point of President Ellen Johnson Sirleaf's six-year term, and the first time data on foreign assistance have been provided with the budget. At \$347 million dollars (\$100 per Liberian, according to the recent census) and 520 pages, the draft budget dwarfs previous submissions. The budget makes the GOL's priorities very clear:

Government sector % growth % of Budget -----

Administration	13.7	24.4
Rule of Law	25.7	13.3
Social Services	15.9	21.1
Economic Growth	36.6	19.9

We note that the relatively low growth in social services is due to the fact that it already commanded a healthy share of the budget and is a focus of substantial donor assistance. The increase in funding in Rule of Law activity is encouraging and matches increasing donor concern about shortcomings in that sector.

¶4. (U) The following entities received budget allocations over 30% larger than last year (some from a very low base):

Administration: Ministry of Finance, Ministry of Planning and Economic Affairs, the National Archives (which has some of the land records), and the Anti-Corruption Commission.

Rule of Law: Ministry of National Defense, National Security Agency, SSS (the President's security force), and Ministry of National Security. (Comment: The NSA is a surprise, as we understood (and hoped) it was slated for elimination. End comment.)

Social Services: University of Liberia, W.V.S. Tubman Technical College, Phebe Hospital and School of Nursing, National Food Assistance Agency, Agricultural and Industrial Training Bureau,

Economic Growth: Public works and intellectual property rights offices.

15. (U) Agencies expecting a reduction in funding include some of the public corporations, the Truth and Reconciliation Commission, the Ministry of Youth and Sports and the National Commission on Disarmament, Demobilization, Rehabilitation and Reintegration efforts.

Growth Despite Challenges

16. (U) Despite sharp drops in revenue forecasts, the GOL budget draft assumes GDP growth of 5% in 2009 (much reduced from Poverty Reduction Strategy projections) and inflation of 3.3%. According to the President's statement, rubber prices have dropped 55% since the end of 2008. (Note: Rubber accounts for over 85% of Liberia's exports. End note.) A drop in rubber production as aged trees are replanted coincided with the plummeting prices. ArcelorMittal Steel has slowed operations of its \$1.5 billion mining investment, cutting over 1,000 employees (including contractors), and now projects

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beginning iron ore exports in late 2010 or early 2011, rather than the July 2009 date on which planning had been based. Other revenue-generating sectors, such as forestry, agriculture and petroleum, were not yet producing, so the decline in world prices affects investment more than exports.

17. (U) Although the economy is growing, so are the GOL's responsibilities. The GOL had been scheduled to take on greater ownership of donor-funded projects next year, as it transitioned from emergency relief to development assistance. The budget addresses the need to provide \$680,000 to cover 17 health facilities that had been donor-funded, and provides \$630,000 to provide meals to police academy trainees that had been covered by UNMIL. The USG is turning over responsibility for more of the maintenance and operations of the Armed Forces of Liberia to the GOL starting August 1, 2009. At that point the GOL assumes the \$480,000 a year cost for the BTC base (primarily generator fuel and salaries), with an additional \$1.43 million starting July 2010 to cover costs at Camp Ware and the EBK barracks.

Maintaining Fiscal Goals

18. (U) Despite those challenges, the GOL plans to maintain promised tax cuts and provide fiscal incentives such as a new \$2 million allocation to support small and medium Liberian businesses. The loss of jobs by ArcelorMittal and others will be partially mitigated by recent concession agreements with China Union (\$2.5 billion for iron ore) and Buchanan Renewables (\$150 million for power generation) that promise an eventual 4,000 jobs (Ref B). Sime Darby's proposed \$800 million investment in rubber and oil palm could produce 20,000 jobs in the longer term. However, the immediate outlook, as reported Ref A, remains stark.

19. (U) The Budget anticipates continuing poverty reduction/fiscal stimulus measures. The reduction in tax rates in the proposed Revenue Code revisions would cut \$14 million (Ref C). The GOL plans to continue migration to the ECOWAS Common External Tariff, which should be completed next year, and will continue suspension of the tariff on rice imports and suspend duty on 24-seat busses.

110. (U) There are bright points. The 2009-10 draft budget

anticipates that mining revenue will increase 180%, to \$63 million. Forestry revenue is expected to grow 24%, to \$7.6 million. Maritime revenue (from Liberia's ship registry) is expected to account for 8% of total revenue. There should be one-time payments by China Union (\$40 million), the Western Cluster concession (\$18 million) and BHP Billiton (\$5 million). There have been savings from migrating to direct deposit: civil servants at 23 ministries and agencies and all GOL vendors are now paid more efficiently. (Note: We are told the civil service now numbers 32,000-34,000 people, down 50% from when the Sirleaf government took office. More cuts are coming. We caution that although the projections for mining and forestry revenue could be realistic under normal circumstances, the GOL has been disappointed for two years in the speed of resumption of revenue from the extractive industries. End note.)

¶11. (U) In her transmittal letter to the legislature, President Sirleaf announced that Cabinet members are freezing their allowances (gas coupons, travel and other perks that far exceed official salaries) and invited the legislative and judicial branches to do the same. The budget proposes increasing the minimum civil service salary to \$80/month (up from \$70) but more significantly increases differentiation within the civil service pay grades. For the first time, teachers, health care workers, and security sector officials will earn \$100/month, rather than the minimum wage. The civil service is working to institute performance pay, and plans to provide vacation jobs in government service for students.

Who is giving what?

¶12. (U) The foreign assistance annex shows \$450 million from donors, of which \$230 million is from the United States. Other major donors are the World Bank (\$62 million); UN agencies (\$51 million); and the African Development Bank (\$32 million). The text notes this first effort is a work in progress, and encourages donors that did not provide information (naming China and UNHCR) to do so in future. The summary also excludes debt relief and donations from foundations. Only the ADB and the WB provide direct budget support, and only 10% of aid comes from direct budget support or pooled funds. In the bar graph accompanying the text, U.S. foreign assistance is omitted, with a note that including it would overwhelm figures for all other donors and make the graph unreadable.

Comment

¶13. (SBU) The budget, submitted to the Legislature May 19, was due April 30. Although it should be the top priority, legislators have

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been distracted by a wide range of extraneous topics, so are unlikely to pass the budget (or other essential legislation) before the June 30 end of the fiscal year. Without provisions for a continuing resolution or the ability to borrow GOL operations --salaries, procurement, travel -- essentially cease in the absence of a budget. The Minister of Finance has committed to resuming payment of \$1 million in GOL domestic debt once the budget is passed, and the need to provide civil service salaries before the July 26 Independence Day holiday provides additional incentive, but we can anticipate disruptions of government services and possible labor unrest in July as budget approval drags on.

¶14. (SBU) The budget coincides with media reporting on audits of GOL entities by government corruption and lack of transparency, and excessive perks. We are noting a new focus by the media and non-governmental groups on aspects of the budget, questioning the level of legislative travel allowances or the lack of promised funding for county hospitals. Liberians are becoming savvier about tracking public funds, but a tremendous amount of reform and education is still necessary before the financial underpinnings of a democratic society are robust.

THOMAS-GREENFIELD